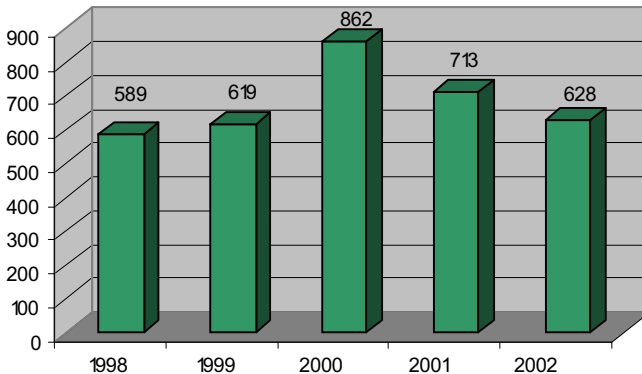


Utility Issues

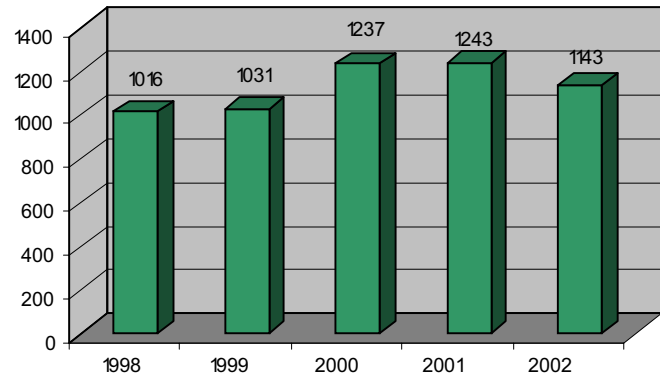
Change continues to occur in utility industries, and with that change, the workload of the Missouri Public Service Commission continues to grow as the PSC evaluates and implements these changes.

New state and federal legislation as well as federal agency activity and the changing regulatory environment have required, and will continue to require, a large commitment of resources in order for the PSC to stay current on developments and to influence state and national policy to the benefit of Missouri ratepayers.

PSC Cases Per Year



Tariff Filings Per Year



ELECTRIC

AmerenUE Electric Rate Reduction

In July 2002, the Commission approved an agreement between its Staff, AmerenUE, the Office of Public Counsel, and numerous intervenors, which resulted in an electric **rate reduction that was among the largest in state history**. Over the next three years, electric rates for AmerenUE's 1.1 million electric customers **will drop** by increasing amounts reaching \$110 million on an annual basis. In addition, this agreement provides for a one-time bill credit of \$40 million as well as customer-assistance programs that are funded solely by AmerenUE's shareholders.

"Rate reductions, a bill credit, customer-assistance programs and a commitment regarding infrastructure investment in Missouri make this agreement a win-win for all parties," stated Commission Chairman Kelvin Simmons.

This complaint case was initiated by the PSC Staff with testimony that alleged AmerenUE's electric rates were not just and reasonable and should be reduced. Chairman Simmons recognized the Staff's commitment in the case. "The PSC

Staff worked very hard in this case and this agreement results from their efforts as well as the efforts of all other parties to the proceedings."

The agreement approved by the Commission also includes funding by AmerenUE shareholders of approximately \$16 million in customer-assistance programs as well as another \$9 million for an economic development program.

Under the agreement, AmerenUE committed to undertake billions of dollars worth of energy infrastructure investment including additional generation capacity and transmission system upgrades.

The agreement also states that unless there is a significant, unusual event that has a major impact on AmerenUE, AmerenUE will not file for a rate increase and the parties will not file for a rate decrease before January 1, 2006.

According to AmerenUE, these Commission authorized rate reductions will place electric rates in their service territory at 1986 levels. Preceding the series of rate reductions that has occurred in the last decade, significant rate increases to AmerenUE's customers were necessary to implement costs of the Callaway nuclear plant.



Missouri Electric Rates

Through the efforts of Missouri's electric utilities and the PSC, all classes of Missouri customers have benefited from low electric rates. The United States Energy Information Administration, a non-partisan office in the federal Department of Energy, annually ranks states according to their average rates in cents per kilowatt-hour. In 2001, Missouri electric rates for residential, commercial and industrial customers were better than the national average (see tables on this page).

Missouri Public Service Electric Rate Reduction

On June 8, 2001 Missouri Public Service, a division of UtiCorp United, Inc. (MPS), filed a rate case designed to increase revenues by \$49.3 million (16.9%) to recover costs associated with a contract for capacity and energy as well as to reflect an increase in natural gas prices.

The PSC Staff conducted an audit of the books and records of MPS that resulted in the Staff filing testimony stating that MPS's current rates should be reduced. In February 2002, the Commission approved an agreement that reduced the annual electric revenues of MPS by approximately \$4.2 million.

Emergency Preparedness

The terrorist attacks in New York City and Washington on September 11, 2001, had a profound impact on our country. At the Missouri Public Service Commission, the PSC Staff filed a motion with the Commission seeking to open a case to receive information from Missouri utility companies regarding their preparedness for disaster and emergency situations.

Utility Operations Division Director Wess Henderson noted: "In light of the disaster in New York City and Washington on September 11, 2001, we believe now is a very good time to review Company preparedness in case of a disaster or emergency." The Commission did something very similar when working with utility companies preparing for Y2K.

A questionnaire was sent to all utility companies operating in Missouri asking for information

RESIDENTIAL

State Name	Avg. Revenue (cents/kWh)	State Rank
Hawaii	16.41	1
New York	14.03	2
New Hampshire	13.14	3
California	10.85	9
Illinois	8.83	13
Iowa	8.37	18
U.S. Avg.	8.21	
Kansas	7.65	26
Arkansas	7.45	32
Missouri	7.04	37
Oklahoma	7.03	38
Nebraska	6.53	41
Kentucky	5.47	49
Idaho	5.39	50
Washington	5.13	51

COMMERCIAL

State Name	Avg. Revenue (cents/kWh)	State Rank
Hawaii	14.81	1
New York	12.54	2
New Hampshire	10.87	3
California	10.55	6
Illinois	7.53	16
U.S. Avg.	7.36	
Iowa	6.57	24
Kansas	6.25	33
Oklahoma	6.14	34
Arkansas	5.93	38
Missouri	5.83	40
Nebraska	5.42	45
Oregon	5.06	49
Washington	4.86	50
Idaho	4.24	51

INDUSTRIAL

State Name	Avg. Revenue (cents/kWh)	State Rank
Hawaii	14.69	1
New Hampshire	9.1	2
Rhode Island	8.7	3
California	7.22	9
Illinois	4.76	18
U.S. Avg.	5.57	
Kansas	4.55	23
Missouri	4.43	26
Arkansas	4.2	29
Oklahoma	4.09	34
Iowa	3.89	38
Nebraska	3.61	44
Idaho	3.11	49
Kentucky	3.01	50
Montana	2.48	51

Source: US Energy Information Administration - 2000 data

regarding their plans in case of a disaster or emergency including employee training, emergency drills, and coordination with and reporting to local, state and federal agencies. The PSC Staff held a roundtable with the state's utilities and other interested parties to discuss security issues and a list of best practices was developed and posted to the PSC's Internet site.

Ice Storm

The worst ice storm in over 100 years hit western Missouri in late January 2002 causing a disruption in service to nearly 400,000 customers. Work crews from 16 different states and from as far away as Georgia came to western Missouri in an effort to rapidly restore power to as many customers as possible. The PSC Staff filed a report in June regarding the utilities' responses. Staff found that the utilities quickly activated emergency response and restoration plans. However, the Staff also found a need for utilities to work to enhance their communications with affected customers and city officials. Staff's investigation also showed that tree-trimming cycles were not on schedule. Prior to the end of 2002, the PSC Staff plans to review each of the report's recommendations with the utility companies affected by the ice storm.

Federal Activity in Electricity

This past year, most federal activity focused on transmission, with significant changes in Regional Transmission Organizations (RTOs). The size of the RTO in the Midwest has expanded as the Federal Energy Regulatory Commission (FERC) rejected both the Southwest Power Pool's (SPP's) and the Alliance Companies' applications for approval as separate RTOs. The basis for these rejections was insufficient geographic size and scope for electricity markets. These FERC decisions related to RTO size and scope resulted in: 1) a proposed merger of the Midwest Independent System Operator (MISO) with the SPP; and 2) the Alliance Companies, which included AmerenUE,



A devastating ice storm hits western Missouri in late January. (Photo courtesy of Missouri Public Service.)

having to choose whether to join MISO or another RTO. With these changes, it appears that all Missouri investor-owned utilities are likely to join the merged SPP/MISO entity.

The merged SPP/MISO covers an area on the western section, from northern Texas to Manitoba, Canada; in the mid-section from Missouri-Illinois to Wisconsin; and in the eastern section, from Kentucky to Michigan. In addition, this large multi-state RTO is working with the Pennsylvania, New Jersey and Maryland Independent System Operator (PJM ISO) to form a single electricity market.

This summer (July 31, 2002), the FERC issued a Notice of Proposed Rulemaking (NOPR) that describes its Standard Market Design (SMD). The proposed SMD includes a number of significant changes. These significant changes in market structure will have a major impact on the operation of wholesale electricity markets, and could also affect the costs of providing service to bundled retail consumers in Missouri. The Missouri PSC continues to be highly involved in the development of the RTOs, but with the issuance of this proposed change, these efforts are now extended to include the impacts that such a significant change may have on Missouri electricity consumers.



Transmission Upgrades

As the demand for electricity continues to increase, electric utilities make upgrades to improve their transmission and distribution systems. In January 2002, AmerenUE filed for Commission authority to construct a transmission line in Maries, Osage and Pulaski counties to enable AmerenUE to provide reliable service to its customers and to relieve overloads on nearby lines. Testimony was filed regarding the need for the line and the impact that the line will have on the public whose property will be impacted. Hearings were scheduled for September and October of 2002.

Rate Cases Decided:

The Empire District Electric Company

On November 2, 2000, The Empire District Electric Company (Empire) filed a rate case requesting that its permanent electric revenues be increased by approximately \$41.4 million a year to reflect the addition of the State Line Combined Cycle Power Plant as well as natural gas costs associated with the operation of that facility.

The PSC approved an agreement reached by parties in the case in September 2001, which resulted in a permanent increase of \$17.1 million. This agreement also established an experimental interim energy charge designed to attempt to address the potential volatility in natural gas and

wholesale electricity prices. This interim energy charge is subject to refund, with interest, depending on Empire's prudently natural gas and purchased power costs.

Citizens Electric Corporation

The Commission approved an agreement that authorized Citizens Electric Corporation (Citizens) to increase its rates on an interim basis by \$4.6 million on January 1, 2002 to reflect the cost of a new purchase power agreement that took effect on that day. Citizens purchases all of its power from wholesalers.

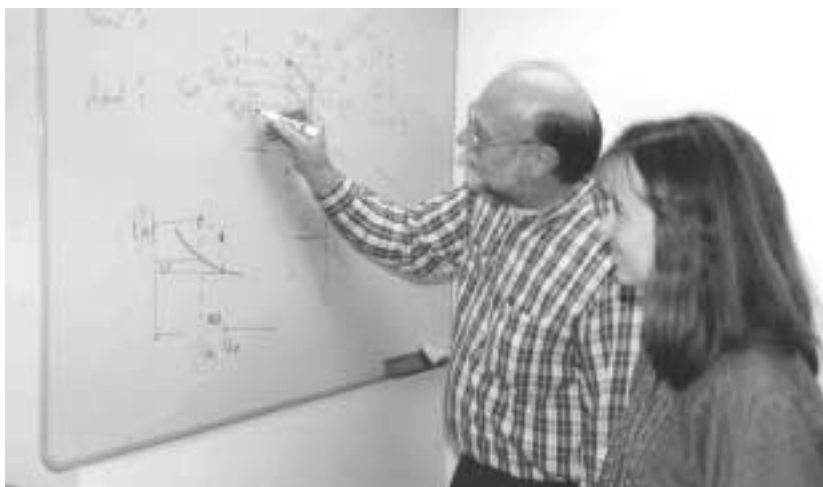
In June 2002, the PSC approved an agreement between the parties in the rate case that made the interim revenue increase permanent and increased Citizens' electric revenues by an additional \$1.6 million. Citizens is an electric cooperative, wholly owned by its members, that is regulated by the PSC. This was the first general rate increase for Citizens in approximately 20 years.

Pending Rate Increase Request:

The Empire District Electric Company

On March 8, 2002, The Empire District Electric Company (Empire) filed a \$19.7 million electric rate case. Empire also filed for interim rate relief to correct a mistake that was discovered after the Commission reached its decision in the last Empire

electric rate case. The Commission denied the request for interim rate relief. The Commission did approve an agreement that reduced the experimental interim energy charge approved in Empire's last rate case by approximately \$7 million, effective in June 2002. Hearings on the permanent rate request were scheduled for October 2002.



Energy Department staff members James Watkins and Lena Mantle discuss issues in an electric rate case.

Reorganizations/ Restructuring

During the fiscal year, the Missouri Public Service Commission approved applications filed by Kansas City Power & Light Company (KCPL) and Laclede Gas Company (Laclede) regarding reorganization plans or restructuring.

In July 2001, the Commission approved an agreement which authorized KCPL to reorganize and become one of three companies under the holding company Great Plains Energy, Incorporated.

Under the reorganization plan, KCPL will still retain all of its current power plant facilities. In addition, the Missouri Public Service Commission will retain jurisdiction (including the setting of electric rates) of KCPL.

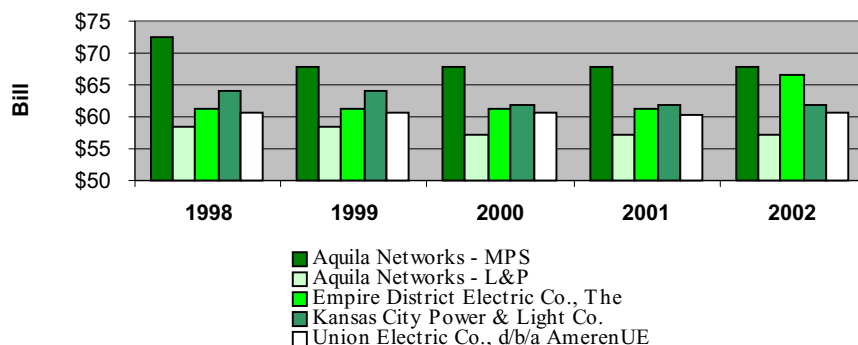
The three subsidiaries under Great Plains Energy will be KCPL, KLT and Great Plains Power, Incorporated.

The agreement approved by the Commission contains several financial conditions designed to protect Missouri KCPL customers.

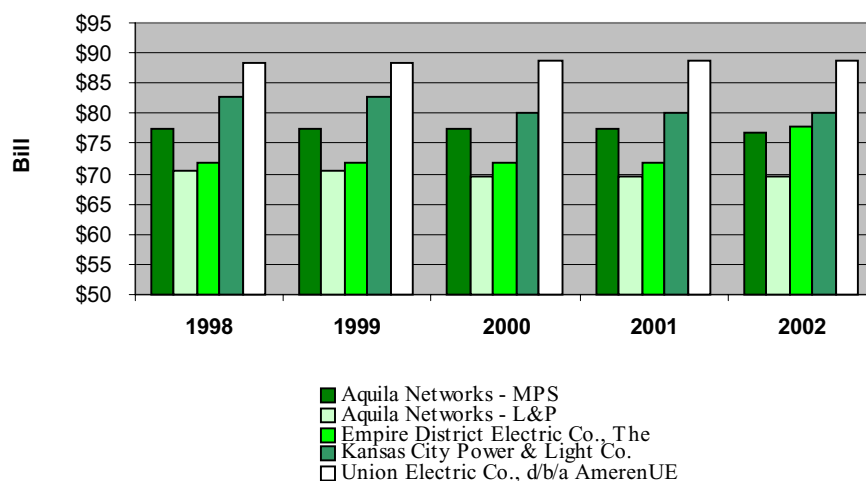
In August, the Commission approved an agreement which authorized Laclede Gas Company to restructure, merge and form subsidiary companies.

Laclede Group, Inc. is the parent holding company and Laclede Gas Company becomes an independent subsidiary.

Residential Electric Customer Bill for 1,000 kWh in January



Residential Electric Customer Bill for 1,000 kWh in July



Laclede Gas Company stated in its application that the proposed restructuring would provide a separation between its regulated and unregulated assets and operations.

Laclede further noted that the proposed restructuring did not involve the transfer of utility-owned assets or any significant transfer of utility employees.



NATURAL GAS

Natural Gas Commodity Price Task Force

In response to the extraordinary weather and natural gas price spikes of the 2000-2001 winter the PSC created a Natural Gas Commodity Price Task Force on January 23, 2001.

This task force was created to investigate the process for the recovery of natural gas commodity cost increases by LDCs (Local Distribution Companies) from their customers and to discuss options.

The result of this effort was a task force report that provided an assessment of what happened to natural gas prices during the 2000-2001 winter, the impacts to natural gas consumers, a policy statement, and 11 recommendations to the PSC. The transcripts from the public meetings and final report of this task force have been made available on the PSC website.

The recommendations of this group are each being evaluated and implemented as determined to be appropriate. One recommendation that has already been incorporated is changing the frequency of PGA rate change filings to four times a year. Other recommendations regarding gas purchasing planning and volatility mitigation continue to be addressed in meetings with LDCs. A generic docket was opened by the Commission to address a number of the remaining recommendations. Tariff changes and rulemaking associated with this generic docket are ongoing.

Purchased Gas Adjustment (PGA)

On March 26, 2002, the Commission established a case (GO-2002-452) to review the PGA clauses of all Missouri LDC's. Establishment of such a case was one of a number of recommendations contained in a report filed by the PSC Natural Gas Commodity Price Task Force.

The PSC Staff and other interested parties are currently reviewing the PGA process, and will make recommendations at a later point in time.



Gas safety specialists like John Kottwitz (left) and Greg Williams conduct inspections of natural gas systems across the state to ensure compliance with Commission rules and regulations.

Chairman Simmons Takes Energy Assistance Needs to State Capitol

In October 2001, Commission Chairman Kelvin Simmons took his call for more funding to help those in need pay their utility bills to the Missouri State Capitol. Appearing before the Joint Interim Committee on Telecommunications & Energy, Chairman Simmons discussed energy assistance funding and disconnects-reconnects of natural gas service heading into the winter.

"Approximately 29,000 Missouri households currently are still without natural gas service due to disconnections while another 50,000 households face the possibility of being disconnected for nonpayment," Simmons told committee members. "There are a number of our citizens that are greatly in need of assistance before cold weather sets in. I plan to continue to work with the Missouri Congressional delegation on their behalf. I will also have to explore other strategies which may be able to help."

Emergency Amendment to Cold Weather Rule

Prior to the onset of cold weather during the winter of 2001-2002, the PSC issued an order approving an Emergency Amendment to the Cold Weather Rule that stated:

“The Missouri Public Service Commission finds that there is an immediate danger to the public health, safety, and welfare and a compelling governmental interest because thousands of Missourians face immediate and irreparable harm from the impending winter weather without a source of heat. This immediate danger requires emergency action.” The emergency amendment took effect on November 18, 2001 and continued until the end of the Cold Weather Rule period (March 31, 2002).

“There is no question that an emergency amendment to the Cold Weather Rule is needed given the extraordinary circumstances of last winter,” stated Commissioner Sheila Lumpe. “This emergency amendment is designed to provide more lenient payment terms to those customers with limited incomes while also helping to restore service to their homes.”

The Commission noted in its order that there was an unusually high number of residential customers without natural gas service. “There are at least 29,000 Missouri residential households without gas service, and perhaps as many as 40,000 to 50,000. The cause of so many customers being without gas

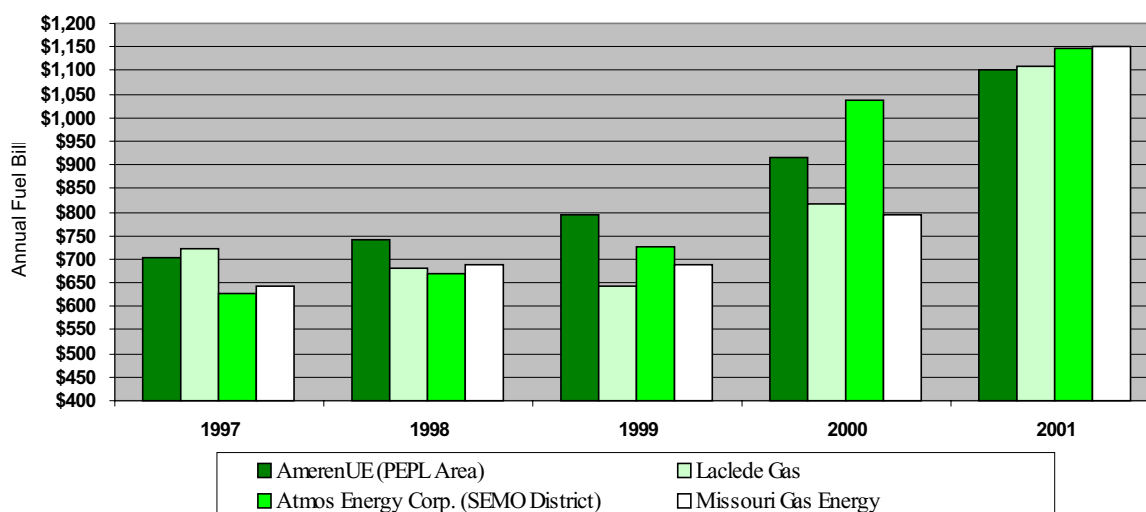
service is the combination of extremely high gas prices in combination with extremely cold weather in November and December of 2000. This combination was an extraordinary event. As a result, not only are an extraordinary number of households without gas service or in danger of losing service, but the average amount of arrearage is also extraordinarily high. As of August 2001, there was a 37 percent increase in the number of disconnects for Missouri LDCs as a group, and the amount owed increased by 117 percent.”

The emergency amendment was implemented by all but two natural gas companies. Missouri Gas Energy and Atmos Energy Corporation challenged the Commission’s decision in the courts.

Consumer Alert for the Upcoming Heating Season

The Commission issued an alert to consumers in April of 2002, which indicated that the winter of 2000-2001, with its extremely cold weather and record-high natural gas prices, created an extraordinarily difficult situation for Missourians as well

Residential Natural Gas Heating Customer Annual Usage at 120Mcf(Dth)





as natural gas customers throughout the country. In the winter 2001-2002, consumers saw significantly lower natural gas prices because of warmer weather and adequate natural gas supplies. The Commission's alert indicated that a number of factors give rise to concern regarding natural gas prices for the 2002-2003 winter heating season. A few of the reasons noted were lower rig counts, additional gas fired electric generation, the possibility of an El Nino summer, instability in the Middle East and a possible increase in overall economic activity. These factors could lead to a possible increase in natural gas prices.

Incentive Regulation

On September 20, 2001, the Commission determined that Laclede Gas Company's Experimental Gas Supply Incentive Plan (GSIP) should expire on October 17, 2001.

This experimental program expired due to the fact that Laclede did not sustain its burden of proof that the GSIP struck a proper balance between ratepayer and shareholder interests, the goal of such a plan. The Commission noted in its decision that the GSIP generated large profits for Laclede Gas Company, but did not create any significant savings on the demand cost of gas for its customers. The Commission indicated that pre-approval as requested by Laclede could discourage the natural gas company from taking opportunities to secure fixed price contracts that would produce reasonable price protection for its customers.

New Experimental Low-Income Rate Granted in MGE Rate Case

On November 7, 2000, Missouri Gas Energy, a division of Southern Union Company (MGE), filed a natural gas rate case seeking to increase annual revenues by approximately \$39.3 million. On July 5, 2001, the Commission accepted an agreement reached by parties in the case that authorized an annual revenue increase of approximately \$9.9 million. Part of the increased funding will expand MGE's weatherization program, which has been benefiting low-income customers for several years. In addition, a new experimental low-income rate will be implemented in the Joplin area. The experi-

mental two-year program will operate in Joplin, providing financial assistance to a maximum of 1,000 low-income families. Participants in the experimental plan will receive bill credits of either \$20 or \$40 a month, depending on income.

School Aggregation Tariffs

During the 2002 legislative session, the Missouri General Assembly passed House Bill 1402. This bill in part, established initiation of aggregation and transportation of natural gas for public school districts. Upon the Governor's approval of the bill, all LDCs were required to file experimental tariffs by August 1, 2002 allowing public school districts the opportunity to aggregate and transport natural gas for a period beginning no later than November 1, 2002 through June 30, 2005. For the first year, these tariffs are designed to allow any seven-director school district to purchase gas on an aggregated basis through a not-for-profit school association and transport it to the participating school districts. Beginning in July of 2003, the program will expand to include any school for elementary or secondary education whether a charter, private or parochial school district.

Underground Utility Damage Prevention Legislation

During the 2001 legislative session, the PSC worked with Missouri One-Call Systems (MOCS) personnel, numerous underground utility operators, and representatives of excavation contractors to gain support for improved damage prevention legislation. House Substitute for House Committee Substitute for House Bill No. 425 was passed by the 91st General Assembly. This legislation establishes a true one-call system in the state. All owners of underground facilities in Missouri are required to be members of the MOCS. So, with one call, a person planning excavation work can have all the underground facility owners in the area of a proposed excavation notified and facilities located. Signed by Governor Bob Holden, this bill became law on August 28, 2001. Previously, a reliable system was not available for those seeking to perform excavation work to identify all underground facility owners in an excavation area. Prior

to this legislation, owners of natural gas facilities were required to participate in the MOCS, but participation in the MOCS by the other underground facility owners was voluntary. Universal participation in the MOCS will increase public safety by better protecting Missouri's underground infrastructure. The PSC Staff has worked with MOCS to inform all PSC regulated utilities with underground facilities about changes to the statute. Specifically, owners and operators of underground facilities in first-and second-class counties are required to become MOCS members before January 1, 2003, and in third and fourth-class counties before January 1, 2005.

Underground Damage Prevention Programs

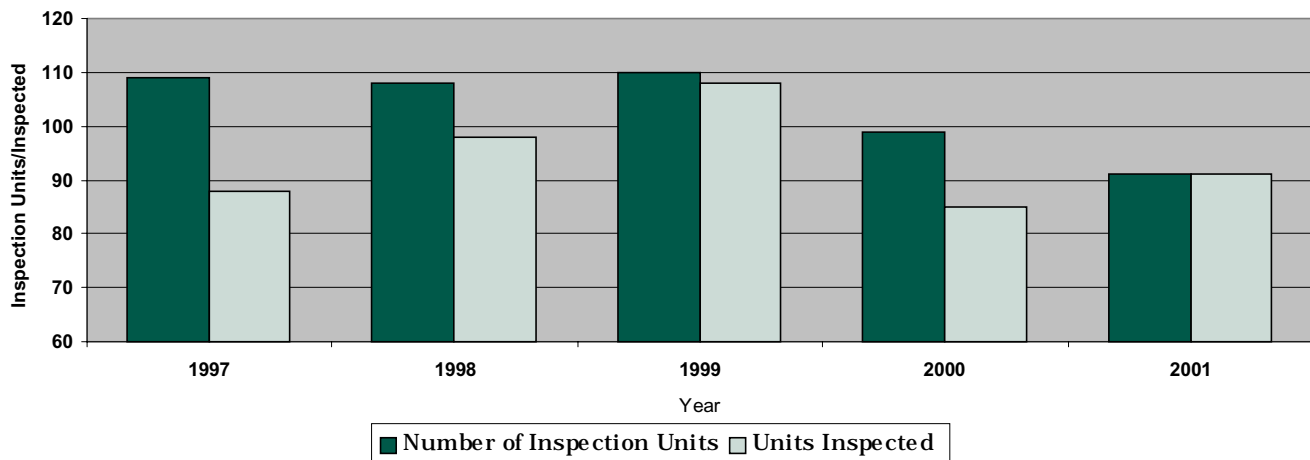
In 1999, the PSC participated in an unprecedented national study of Damage Prevention Best Practices, sponsored by the Federal Office of Pipeline Safety (OPS). This study was conducted by more than 160 stakeholders representing multiple industries and interest groups across the country.

The study resulted in a report titled "Common Ground: Damage Prevention Best Practices Report" (August 1999) which contains key elements to successful damage prevention programs. Damage prevention work on a national level continues through Common Ground Alliance (CGA). The PSC continues its participation in this national initiative which seeks to reduce damage to underground facilities.

A group of Missouri stakeholders formed Missouri Common Ground (MCG) with the mission of identifying and promoting the Best Practices to prevent underground facility damage. The PSC's Gas Safety/Engineering Staff is part of the Steering Committee of MCG, facilitating its formation and continuing to encourage the development of several Regional Damage Prevention Councils throughout Missouri.

To date, seven Regional Damage Prevention Councils have been established with the intent of providing a forum to promote not only communication and education, but to improve policies, improve coordination, form guidelines, and enhance

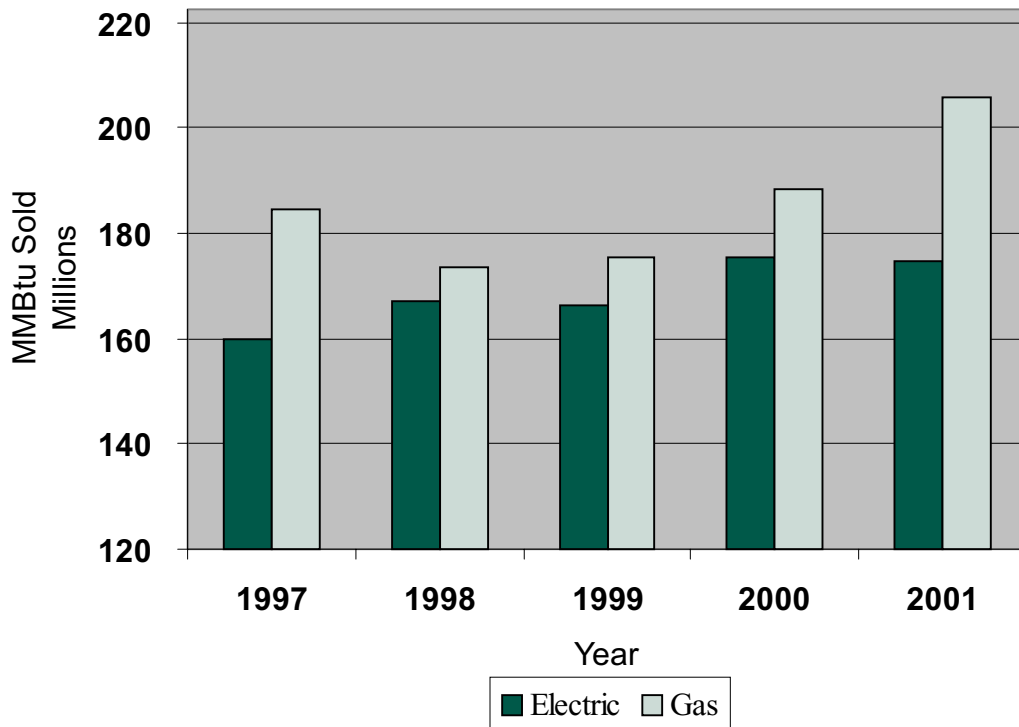
Missouri Jurisdictional Gas Utilities Inspection Units - Gas Safety



Source: MoPSC FERC pipeline safety budget material submitted to the U.S. Department of Transportation



Missouri Jurisdictional Electric and Gas Utilities MMBtus Sold



Missouri's damage prevention statute.

Grass-roots participation in, and support of damage prevention practices by all stakeholders (all underground facility owners, excavators, locating personnel, builders/developers and others) is the foundation upon which a successful damage prevention program, for all underground facilities in Missouri, can be built.

MCG recently became a partner with CGA, which will bring national recognition to this state organization and will better facilitate communication on Best Practices and improve membership.

Missouri Association of Natural Gas Operators

MANGO (Missouri Association of Natural Gas Operators) is a nonprofit organization comprised of Natural Gas Operators. These Operators work together with the PSC Gas Safety/Engineering Staff to enhance the operations and safety of natural gas utilities.

MANGO works with the PSC to review existing regulations, clarify interpretations and provide

support in developing new regulations. The goal is to work together to address potential hazards such as directional drilling, defective materials and other issues that arise, as well as foster continuing dialog to operate the natural gas systems in the state as safely as possible.

The PSC and MANGO conduct annual meetings to stay current on issues, trends in the industry and other issues affecting the operators' operations.

Federal Natural Gas Activities

Decisions by the Federal Energy Regulatory Commission (FERC) directly impact Missouri ratepayers since Missouri's LDCs must use FERC-regulated interstate pipelines for delivery of their natural gas supplies. The PSC believes its involvement in FERC and related judicial proceedings is necessary to ensure that Missouri natural gas consumers receive reliable service at reasonable rates.

There are 10 interstate pipelines directly

serving Missouri with several additional upstream pipelines that are not in our state which are used by our LDCs. The PSC actively participates in many proceedings, company-specific and generic, focusing on those having the greatest impact to Missouri and/or those where representation of Missouri interests is limited or absent. **The PSC's federal gas activities resulted in \$26.7 million in cost savings (\$2.3 million in rate refunds and \$24.4 million in rate reductions) for Missouri consumers during fiscal year 2001.**

The three pipelines delivering a majority of the state's natural gas are: Williams Gas Pipelines-Central (Williams), Mississippi River Transmission Corporation (MRT), and Panhandle Eastern Pipe Line Company (Panhandle). Williams serves western Missouri, including the Kansas City, St. Joseph, Springfield and Joplin areas and has a small lateral terminating in St. Louis. MRT serves St. Louis and portions of southeast Missouri. Panhandle serves a number of systems across the central part of the state.

Kansas Ad Valorem Tax Refunds

Since 1989, the PSC has been aggressively seeking refunds of Kansas ad valorem taxes unlawfully collected from Williams and Panhandle consumers during 1988-1993. Of the estimated \$75 million in refunds owed to Missouri ratepayers, \$20.5 million has been received - \$13 million during 1994-1995, \$7.3 million during 1998-1999, and \$1.5 million during 2000-2001.

Settlements seeking final resolution of all Kansas ad valorem tax refund issues were filed in the Williams (RP98-52) and Panhandle (RP98-40) dockets in February and June 2001, respectively. In both cases, the PSC agreed with provisions settling small-to-medium-sized refund obligations, but opted-out of settlement provisions granting 25% waivers on producers' large refund obligations. If the PSC is unable to negotiate a lesser, more reasonable waiver with the large producers, it will continue to litigate to obtain full refunds from these producers. The PSC is also pursuing certain unpaid refunds other parties have deemed uncollectible.

Mississippi River Transmission Corporation (MRT)

MRT, in its 1999 annual fuel use and loss rate filing, sought to recover from St. Louis and other eastern Missouri consumers, approximately 1.75 Bcf of gas losses it incurred during the period of November 1993 through June 1998. The PSC opposed the flow-through of these out-of-period gas losses. In a May 31, 2001 order, FERC set this matter for hearing, while also directing parties to participate in settlement discussions under the auspices of a FERC settlement judge.

In March 2001, MRT filed a case seeking a rate increase (18% for Missouri customers), to become effective October 1, 2001, subject to refund. The PSC protested numerous aspects of the filing. FERC rejected several of MRT's proposals protested by the PSC, and set the remaining issues for a January 2002 hearing.

Negotiations in MRT's fuel and rate case dockets (Docket Nos. TM00-1-25 and RP01-292, respectively) culminated in the filing of an uncontested settlement on November 5, 2001, which was approved by FERC on January 16, 2002. Regarding the fuel docket, the settlement requires customers to make in-kind fuel reimbursements to MRT for one-fourth of the claimed losses. In return, storage rates are being lowered and frozen (for five years ending September 2006) and MRT will bear all costs associated with maintaining late season storage deliverability.

Under the settlement customers will receive small rate decreases from October 2001 through September 2003, with further reductions in each of the three years commencing October 2003. A conditional five year rate moratorium through September 2006 was obtained, as well as additional protection for retroactive refunds applicable to future MRT rate cases.

Kansas Pipeline Company (KPC)

A portion of the gas supply for Kansas City is transported over KPC. FERC allowed KPC (in Docket No. CP96-152) to begin charging FERC transportation rates, which were significantly higher



than what the PSC believed to be reasonable. The PSC obtained a favorable U.S. Court of Appeals decision in its appeal of the initial FERC rate orders (Case No. 99-1203). However, the PSC believed FERC's orders on remand were erroneous, and therefore filed another appeal (Case No. 02-1132) on April 17, 2002. At issue is approximately \$1.8 million per year in rates paid by Missouri customers since early 1998 through the date final rates in KPC's subsequent rate case (Docket No. RP99-485) become effective.

KPC's August 1999 rate filing in Docket No. RP99-485 sought to maintain or slightly increase the initial rates FERC had approved in May 1998. During 2000, the PSC used six of its staff to present expert testimony in this case seeking a \$20 million reduction to KPC's annual cost-of-service. On September 10, 2002, FERC issued its order upholding most of the hearing judge's initial decision and directing KPC to file tariff sheets within 30 days implementing prospective rate reductions based on a \$20.5 million cost-of-service rather than the \$34.7 million requested by KPC. However, a final FERC order in this proceeding is not expected before the end of 2002.

Williams Gas Pipelines-Central (Williams)

The PSC actively participated in Docket No. R01-298, seeking to have minimum delivery pressures defined in Williams' tariff, so as to protect customer service quality. The PSC's concerns were satisfactorily addressed in a July 30, 2001 Stipulation and Agreement, which was approved by FERC in late 2001.

In March 2002, Williams filed tariffs (Docket No. RP02-179) to implement daily balancing and schedul-

ing penalties on its system by September 1, 2002. The PSC and other customers identified numerous deficiencies and shortcomings in Williams' proposal and actively participated in technical conference proceedings. On August 30, 2002, FERC rejected Williams' proposed tariffs.

Other Proceedings

In February 2000, FERC issued Order No. 637 amending its regulations, policies and procedures to improve the competitiveness and efficiency of natural gas transportation markets. FERC has nearly completed its review of all pipeline compliance filings or settlements implementing capacity release, right-of-first-refusal, penalty, and other aspects of Order No. 637.

The PSC has been thoroughly analyzing pipeline refund filings and fuel reimbursement requests and expressing concerns about the lack of consistency in the documentation supporting those filings. It has been successful in obtaining corrective modifications to pipeline fuel waiver requests.



Warren Wood, Manager of the PSC Energy Department, conducts a roundtable meeting with Commissioners, PSC staff, electric utilities, and other interested parties regarding proposed federal rulemaking.

TELECOMMUNICATIONS

Competition for Basic Local Telephone Service

Competition for local telephone service in Missouri continues to be most noticeable among business customers, and concentrated among Missouri's major metropolitan areas. Since the Commission first authorized local exchange telephone competition in 1997, a total of 85 companies have been authorized by the Commission to provide telecommunications service in competition with the traditional incumbent local exchange carriers. As of July 2002, it is estimated that competitors serve approximately 450,000 access lines in Missouri, or approximately 13% of Missouri's approximately 3.4 million access lines.

Competitors provide local exchange telephone service a variety of ways including: (1) through the resale of the incumbent's facilities (2) by using portions of the incumbent's network (called Network Elements) or (3) through the use of the competitor's network.

Southwestern Bell's Application to Provide Interstate Long Distance Service in Missouri

Pursuant to federal guidelines and a recommendation by the PSC, Southwestern Bell Telephone Company (SWBT) received Federal Communications Commission (FCC) approval to begin providing interstate long distance telephone service to its Missouri customers on December 10, 2001. SWBT's approval to provide interstate long distance telephone service came as a result of the passage of the federal Telecommunications Act of 1996.

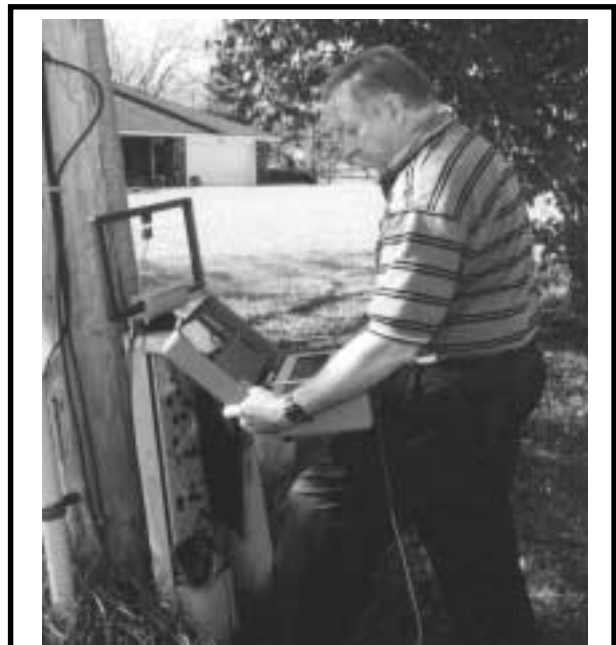
As part of the process enabling SWBT to provide interstate long distance, SWBT was first required to open its local telecommunications market to competition. In order to ensure that SWBT continues to keep its local telephone market open to competition, the PSC and the PSC staff will regularly monitor the status of local telephone competition. As part of the monitoring process, SWBT is required to adhere to certain performance standards. These standards are used to determine if SWBT is providing acceptable

levels of service quality for those services provided to competitive local exchange companies. If performance falls below certain levels, SWBT may be required to submit financial payments to both the affected competitive telephone company and to the state of Missouri.

Rule Revisions

Missouri Universal Service Fund (4 CSR 240-31)

In March 2002, the PSC established a universal service fund to assist low-income and disabled consumers in obtaining affordable essential telecommunications services. The PSC is modifying current Missouri Universal Service Fund rules to include guidelines for implementing and administering the fund.



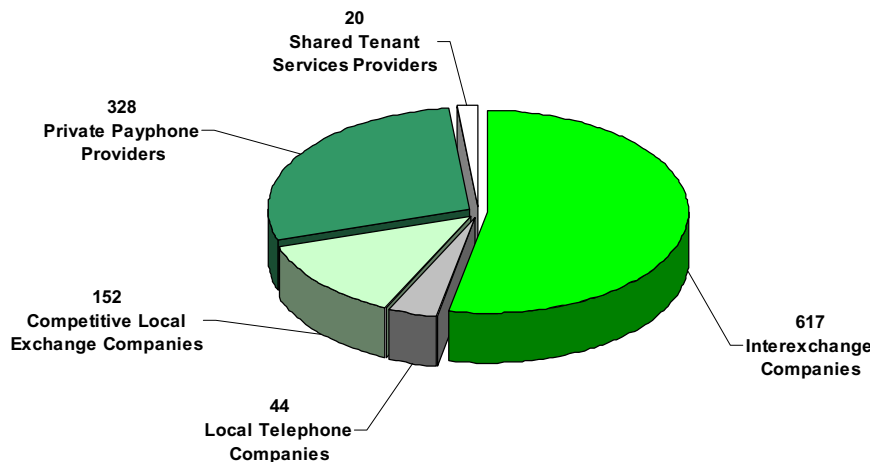
Mick Johnson of the PSC staff tests some telephone equipment to ensure compliance with PSC rules regarding quality of service.

Service and Billing Practices for Telecommunications Companies (4 CSR 240-33)

The PSC is proposing revisions to this rule that closely match the FCC's Truth-in-Billing Rules. The proposed revisions should allow consumers to better understand their telecommunications bills, giving consumers the ability to control what type of



Certificated Telecommunications Providers



calls are made from their telephone and allowing consumers to have some control over what charges are found on their bill.

The Telecommunications Staff has also been working on various proposed rulemakings to codify existing procedures on such things as the filing of interconnection agreements, current tariffing requirements, customer notification requirements, filing requirements for competitive local exchange carriers and the inter-company record exchange process for traffic transmitted between companies.

Consumer Outreach

The PSC continues to update the “Show-Me-Rates” price comparison center web site www.psc.state.mo.us/teleco-showmerates.asp. Show-Me-Rates is an on-going project that includes rates for local toll and in-state long distance calls and provides contact information for various competitive local telecommunications companies throughout the state.

The PSC web site also includes telecommunications-specific information to keep the public and industry informed. Topics such as telecommunications rules and statutes, metropolitan calling area (MCA), telecommunications carriers’ quality of service workshop, LATA (Local Access Transport Area) maps and area code maps are all located under the Telecommunications section of the web

page. This section of the web page also contains various consumer publications such as: understanding telephone numbers, the Missouri No Call Law and telemarketing.

Federal Telecommunications Activity

The PSC continues to actively monitor federal telecommunications activity at the FCC, other state

commissions and federal courts. During the past year, the FCC has addressed such issues as initiating a triennial review of unbundling requirements for telecommunications network elements, various broadband issues and the release of proprietary customer information. The U.S. Supreme Court and the U.S. Court of Appeals issued major telecommunications decisions impacting wholesale pricing and the sharing of network components between telecommunications carriers. The PSC filed comments in proceedings before the FCC on such issues as customer notice requirements for rate changes, cost recovery for deaf relay services provided using the internet, performance measurement requirements for incumbent local telecommunications carriers, and unbundling requirements for telecommunications network elements.

Interconnection Agreements

Interconnection Agreements are negotiated or arbitrated “contracts” between two telecommunications carriers. The PSC conducted an arbitration proceeding between Southwestern Bell Telephone Company and Brooks Fiber Communications of Missouri, Inc., MCImetro Access Transmission Services LLC, and MCI WorldCom Communications, Inc. This arbitration case addressed such issues as rates, terms and conditions for unbundled network elements, network interconnection and architecture and operations support systems.

The PSC held hearings on several cases that were established to determine Southwestern Bell's rates, terms and conditions for DSL conditioning (the preparation of telephone lines to allow advanced services such as high-speed Internet access), line sharing/line splitting (the ability to "split" a consumer's telephone line to allow voice service and advanced services such as high-speed Internet access over the same line) and unbundled network elements (the various components of Southwestern Bell's telephone network a competitive local exchange carrier purchases to provide telecommunications service to consumers). Decisions were issued in the DSL conditioning and unbundled network elements cases with compliance activity to be completed by the end of 2002.

Relay Missouri

During 2002, some significant events have impacted Relay Missouri. First, the PSC allowed an Internet hyperlink (link) on its website which allows users to transit to the Relay Missouri website using a single click.

In addition, the FCC has agreed to fund, on an interim basis, both Internet Relay, and Video Relay services. Links to both of these services are accessible by following the link provided on the Missouri Public Service Commission website.

Anyone with an Internet connection and a browser can access Internet Relay. The service essentially works the same as a TTY-based call, except the caller does not need a TTY. In addition, the service provides split-screen capability, so the caller can type ahead, and the caller does not have to wait for the Communications Assistant (CA) to first stop typing.

The Missouri Video Relay Service (MoVRS) allows a caller to communicate with the CA via American Sign Language (ASL). Allowing a caller to communicate visually in his or her primary language speeds and eases the use of communications for both the caller and the called party. The equipment required to make a MoVRS call includes a video camera, an adequate computer, and a broadband Internet connection (i.e. DSL, T-1, or cable modem connection).

Telephone Numbers

The PSC has strived to improve how telephone numbers are distributed in Missouri through various number conservation efforts, including Number Pooling, Reclamation, and Sequential Number Assignment. Through the use of Number Pooling, telephone numbers are distributed to telecommunications carriers in blocks of 1,000 telephone numbers rather than the past FCC practice of blocks of 10,000 numbers. In January and February 2002, the Missouri PSC implemented number pooling trials in the 314 and 816 area codes. Number pooling began in the 573 area code in April 2002. The 660 and 636 area codes are scheduled to begin pooling later this year with pooling in the 417 area code due to begin in 2003.

Telephone number reclamation is another way to conserve telephone numbers. Number reclamation prevents a telecommunications carrier from hoarding or stock-piling large blocks of telephone numbers that may go unused for a significant period of time. Once telephone numbers are returned, they are available for use by another company.

Sequential number assignment establishes requirements for telecommunications carriers in distributing telephone numbers. In general, sequential number assignment requires telephone companies to assign telephone numbers within an existing opened block of one thousand numbers before assigning telephone numbers from another block of numbers.

Through the Missouri PSC's telephone number conservation efforts, the lives of Missouri area codes have been extended. Current exhaust projections for Missouri area codes are:

314 - 1st quarter of 2008
816 - 1st quarter of 2008
417 - 1st quarter of 2009
573 - 1st quarter of 2010
636 - 4th quarter of 2017
660 - 3rd quarter of 2022



The Telecommunications Department continues to investigate area code usage, reclaiming of unused telephone numbers, and implementation of telephone number conservation.

Missouri Universal Service Fund

Effective March 31, 2002, the Missouri Public Service Commission approved the establishment of a Missouri Universal Service Fund (MoUSF) to help low-income and disabled Missourians receive basic local telephone service.

The establishment of the MoUSF is pursuant to state law passed by the Missouri General Assembly in 1996 (Senate Bill 507). The plan would result in a fund of approximately \$4.8 million, excluding any fund administration costs, which would provide support for a substantial number of low-income and disabled Missouri residents.

The program will be funded through a Missouri telecommunications carrier assessment. The purpose of the MoUSF program is to implement assistance to low-income and disabled customers for telecommunications services under the Lifeline and/or Link-up programs funded from the Federal Universal Service Fund. One goal established by the PSC was to fashion a state program so that the support amount provided to the low-income and disabled customers is set at a level necessary to gain the maximum Federal Universal Service Fund support for services to such customers. The PSC

established a state support of \$3.50 per customer per month which would provide the maximum in federal funding.

The Federal Universal Service Fund and the MoUSF may offer a total discount to qualifying customers of up to \$13.00 per month on their telephone bill. Adoption of the Missouri USF low-income/disabled program will increase the level of telephone penetration in households made up of low-income and disabled consumers.

The Missouri Universal Service Fund is administered by the Missouri Universal Service Board comprised of members of the PSC and the Office of Public Counsel, a separate state agency which represents the general public in proceedings before the PSC. Currently, the Missouri Universal Service Board is gathering information for a Request For Proposal to hire a Fund Administrator to work with the Missouri Universal Service Board in administering the fund.

Wireless/Landline Traffic

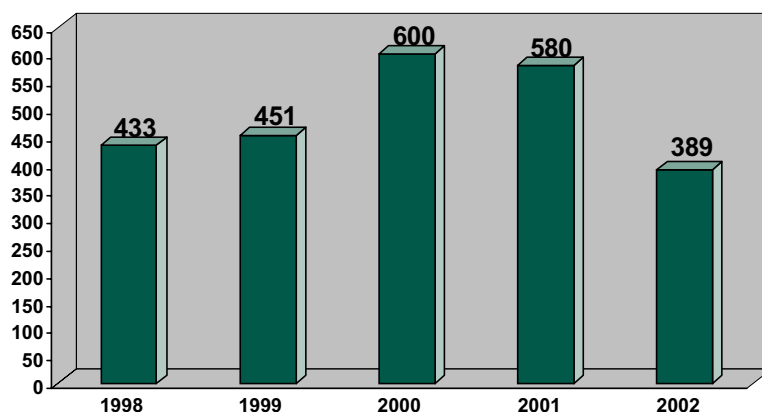
The Missouri PSC does not regulate wireless traffic (cell phone or paging services) when such services and facilities are provided under a license granted by the FCC. However, the PSC does have jurisdiction over interconnection arrangements between local telephone companies and wireless carriers. The federal Telecommunications Act of 1996 authorizes interconnection agreements between telecommunications carriers (wireless,

landline) exchanging traffic.

These interconnection agreements are negotiated or arbitrated "contracts" between two telecommunication carriers and are submitted to the PSC for approval.

In order for traffic to flow in both directions, the Missouri PSC approved over 30 "wireless termination tariffs" establishing the terms and conditions for service in a situation where wireless carriers are sending traffic to each others' customers in the

Annual Number of New Telecommunications Cases Filed



absence of an interconnection agreement between the two parties.

Multi-Year Term Commitments

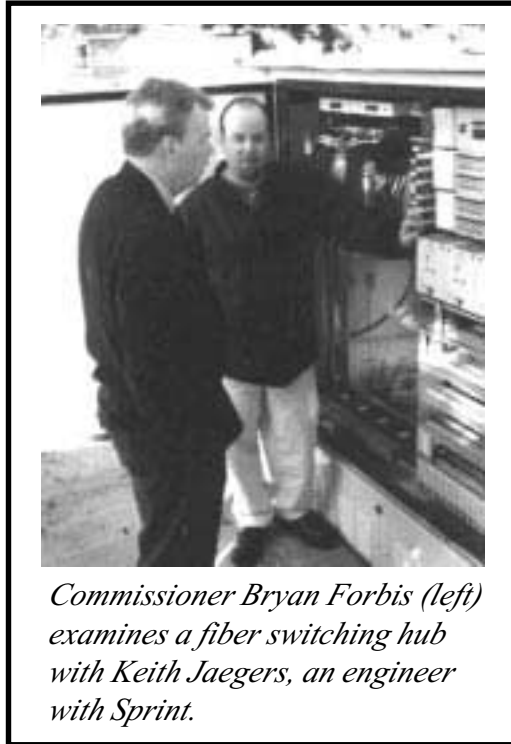
In fiscal year 2002, the PSC was confronted with new challenges to the competitive telecommunications marketplace in Missouri. In Case Nos. TT-2001-108 and TT-2002-227, the PSC was presented with many telecommunications company proposals for multi-year term-contracts which offered customers discounts for basic telecommunications services.

The PSC determined that the fundamental issues in these cases dealt with the dichotomy between individual interest and social interests. The PSC, out of a concern that competitive local exchange carriers be able to find and market their services to new customers, in the interest of fairness to all local exchange providers, and out of a desire to maximize the number of provider-choices a telecommunications consumer in Missouri may enjoy, decided to limit the period all local telecommunications services providers may contract for basic services with a given customer to a maximum of one year.

Metropolitan Calling Area Service

The Commission continued its investigation into the Metropolitan Calling Area (MCA) plan during the past year. MCA is a service allowing expanded local calling in the Kansas City, Springfield, and St. Louis areas. In January 2002, the MCA Industry Task Force filed its Final Status Report making a number of recommendations for Commission consideration.

The task force is comprised of the PSC staff, the Office of Public Counsel, and representatives of new competitive and traditional incumbent local



Commissioner Bryan Forbis (left) examines a fiber switching hub with Keith Jaegers, an engineer with Sprint.

telephone companies in Missouri.

In order to allow discussion and exploration of the industry task force recommendations, an on-the-record presentation was conducted on July 15, 2002.

Switched Access Cost Investigation

The PSC established an investigative docket to identify the costs of providing intrastate switched access service in Missouri. Switched access service refers to service provided by local telephone companies to long distance companies for the use of the local telephone company's

facilities in originating and terminating long distance calls. Switched access rates can ultimately impact long distance rates charged by long distance companies. The Telecommunications Department Staff and several telecommunications carriers provided the Commission with various studies outlining the cost of providing switched access service.

Sale of Verizon exchanges

On May 31, 2002, the PSC issued an order authorizing the transfer of GTE Midwest, Inc. d/b/a Verizon's 96 Missouri exchanges to CenturyTel of Missouri, LLC. According to the agreement approved by the Commission, "CenturyTel proposes no immediate change in the field operations of the Verizon properties and proposes to retain all of Verizon's existing employees. Moreover, CenturyTel proposes no immediate changes in rates, terms and conditions of the telecommunications service currently provided to the customers in the former Verizon exchanges." Verizon customers became CenturyTel customers on September 1, 2002.



Water & Sewer Department

Department Personnel

The Water & Sewer Department consists of seven professional/technical positions and is split into two sections, Rates and Engineering. Although the Department is split into the Rates and Engineering Sections, staff members work closely together as a team and it is not unusual for them to share responsibilities.

As with most departments within the Commission's organizational structure, the Department's management personnel carry out not only their administrative duties, but are also involved in a great deal of the technical and analytical case work that falls within the scope of the Department's responsibilities. As a group, the Department's staff members have compiled more than 150 years of regulatory and/or water and sewer utility work experience, with much of that experience having been gained by their work in the Department.

Department Responsibilities

By law, the PSC is responsible for regulating the rates, fees and operating practices of privately owned water and sewer corporations that operate in Missouri. The Water & Sewer Department helps the Commission fulfill its responsibilities by providing technical expertise to the Commission on matters relating to water and sewer system operations and the tariffed rates, charges and services of regulated water and sewer companies. The general objectives of the Department are twofold. The first objective is to ensure that regulated water and sewer companies provide safe and adequate service to their customers at rates that are deemed just and reasonable. The second objective is to ensure that companies provide service according to applicable Commission rules and procedures and the provisions of their Commission-approved tariffs. Specific aspects of the Department's work include:

- Evaluating company tariff filings to determine



PSC Staff engineer Martin Hummel (left) and Missouri-American Water Company Production Manager Steve Ridenhour discuss the water treatment processes of a company water plant chemical room.

- whether proposed new/revised tariff provisions comply with applicable Commission rules, policies and state laws;

- Reviewing existing company tariffs to determine whether the provisions of the tariffs continue to comply with applicable Commission rules, policies and state laws, as they change over time;

- Participating in all formal and informal rate filings from the perspective of evaluating the appropriateness and design of proposed rates and charges, the adequacy of system operations and the appropriateness of and/or need for system plant additions that have been or will be placed in service;

- Participating in the review of all applications for new/expanded certificated service areas from the perspective of evaluating the need for the service proposed, the reasonableness and design of proposed rates and charges, proposed system design, plans for system operations and overall project feasibility;

- Participating in the review of financing applications to determine the appropriateness of and/or need for projects being financed, as necessary;



Regulated Sewer Companies

Customer Base	Number of Companies	Customers Served	% of Total Customers Served
1,000 & Up	2	2,565	22.10
500 - 999	3	2,185	18.83
200 - 499	11	3,340	28.78
100 - 199	16	2,375	20.47
50 - 99	12	810	6.98
0 - 49	14	330	2.84
TOTALS	58	11,605	100.0

NOTE: Tables compiled 9/25/02 based on most recently available information. Customers rounded to the nearest "five."

Regulated Water Companies

Customer Base	Number of Companies	Customers Served	% of Total Customers Served
100,000 & Up*	1	413,580	92.93
5,000 – 9,999	1	6,770	1.52
2,500 – 4,999	1	4,515	1.01
1,500 – 2,499	2	4,735	1.06
750 – 1,499	5	5,105	1.15
500 – 749	4	2,600	0.58
250 – 499	9	2,970	0.67
150 – 249	14	2,610	0.59
100 – 149	9	1,080	0.24
50 – 99	13	880	0.20
0 – 49	10	215	0.05
TOTALS	69	445,060	100

NOTE: Tables compiled 9/25/02 based on most recently available information. Customers rounded to the nearest "five."

* Merged company consisting of Missouri-American Water Company, St. Louis County Water Company and Jefferson City Water Works Company.

MANUFACTURED HOUSING AND MODULAR UNIT PROGRAM

The PSC regulates new manufactured homes and modular units sold in the state. Through the Manufactured Housing and Modular Units Program (Program), the PSC acts as the state administrative agency to the United States Department of Housing and Urban Development (HUD). HUD is the federal agency that regulates the manufactured housing industry in the United States.

The PSC has a toll-free hotline for consumers who have questions and/or complaints regarding manufactured homes or modular units. The toll-free number is **1-800-819-3180**.

The Program continues to experience a negative impact involving economic trends within the manufactured housing industry. Due to a thriving industry during the past decade, the industry overproduced and obtained large volumes of inventory. Many manufacturers and dealers suffered when home sales dropped dramatically after the industry's interest rates increased, which shifted sales to a repossession sales oriented situation. Subsequently, manufacturers and dealers were left with large inventories, and some have gone out of business. This impact has decreased the number of manufacturer and dealer registrations the Program administers.

The PSC Manufactured Housing Department will be working with other entities in the future regarding the implementation of new federal mandates which must be placed into effect by December 2005. These new mandates include: licensing of all home installers, inspections of new homes and dispute resolution.



Gene Winn, Manufactured Housing Inspector/Supervisor, inspects the siding installation on a new manufactured home.

ANNUAL STATISTICS FOR FISCAL YEAR 2002

Registered Manufacturers:	176
Registered Dealers:	330
Homes Sold (new & used):	7,567
Consumer Complaint Inspections:	164
Dealer Lots Inspected:	306
Modular Unit Seals Issued:	1,594
Modular Unit Plans Approved:	731

Source: PSC Manufactured Housing Department database

-- Conducting regularly scheduled field inspections to determine whether company facilities and overall system operations comply with applicable Commission rules, company tariff provisions and proper operational procedures;

-- Interacting with company owners/operators regarding operational and technical matters;

-- Investigating customer complaints and responding to customer inquiries concerning matters related to rates, charges, system operations and quality of service; and

-- Providing expert testimony before the Commission on water and sewer cases pending before it, and providing technical advice to the Commission in its rulemaking actions on water and sewer matters.

Interaction With The Department Of Natural Resources

Of the utilities regulated by the Commission, water and sewer utilities are unique in that another state agency, the Department of Natural Resources (DNR), also has significant jurisdiction over the utilities. Specifically, DNR's jurisdiction covers the area of the water and sewer utilities' compliance with applicable federal and state environmental and water quality laws and regulations. While the Commission's rules provide for general oversight regarding water quality and sewage treatment standards, the Commission generally relies upon DNR to determine whether companies are complying with applicable federal and state environmental and water quality laws and regulations.

Because of the overlapping jurisdiction between the Commission and DNR, staffs of the agencies attempt to work cooperatively in achieving the agencies' respective missions. For some time, the two agencies have shared information regarding companies for which the agencies share regulatory responsibilities, under the provisions of a Memorandum of Understanding (MOU) between the agencies. However, the Commission and the DNR's Director recently pressed for im-

provements in the agencies' cooperation and coordination on overlapping matters, such as the DNR's issuance of construction and operating permits and the Commission's utility service area certification process. As a result, the agencies executed a new MOU in July 2001, which, among other things, includes provisions that will result in the streamlining of the application processes for new water system construction, permitting and certification, and which will better coordinate the agencies' respective review and approval processes for such systems. It is anticipated that such efforts will eventually extend to the permitting and certification of all water and wastewater systems for which the agencies share jurisdiction.

PSC Regulated Water & Sewer Companies

The Commission currently has jurisdiction over 58 sewer companies and 69 water companies, which operate in various locations throughout the state. The tables on the following page show the distribution of the number of companies based upon the number of customers served, using the most recently available customer numbers. As is shown in these tables, the vast majority of the Commission's jurisdictional water and sewer utilities are very small, which presents unique situations with which the Commission and the PSC Staff must deal.



Piping in the high service pump room of Missouri-American Water Company's St. Joseph treatment plant.